

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

--	--	--	--	--	--	--	--	--	--

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BBF3084 – GLOBAL FINANCE

(All Sections/Groups)

2 MARCH 2020
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages excluding cover page with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Instruction: Answer ALL Questions (100 marks)**QUESTION 1**

Why Indonesia Failed to Cash in on the China-U.S. Trade War?

By *Karlis Salna*

November 6, 2019,

In the Central Java province of Indonesia, amid a patchwork of rice fields and farms where sugar and indigo crops once dominated, garment factories are now bustling. In one cavernous building of the PT Sri Rejeki Isman factory on the outskirts of the city of Solo, thousands of sewing machines hum and clatter as workers stitch clothes for H&M, Guess? Inc., Walmart Inc. and others. At a PT Pan Brothers plant just down the road, an assembly line is pumping out thousands of red and white hoodies for Adidas AG.

Indonesia's textile industry, which was slowly being overtaken by lower-cost regional neighbors like Vietnam and Bangladesh, is on the cusp of a new boom thanks to the seismic shift in global supply chains caused by the U.S.-China trade war. American buyers are looking for alternatives to Chinese suppliers to bypass higher tariffs, and many of them are turning to locations in Southeast Asia.

Textiles and garments are only one bright spot in a manufacturing sector that's otherwise been fairly lackluster. In 2001, Indonesia's manufacturing sector contributed 29% to GDP -- now it's below 20%. Its share of Asia merchandise exports is 2.3%, compared with about 3.1% for regional peers like Malaysia and Thailand, according to data from the United Nations Conference on Trade and Development.

There are concrete signs that Indonesia isn't benefiting the way it probably should from the trade war tensions. In a closed-door presentation to President Joko Widodo in September, the World Bank cited research showing that of 33 Chinese companies that announced plans to set up or expand production abroad between June and August, none chose Indonesia. Vietnam was the clear winner, while others like Cambodia, India and Malaysia were also favored over Indonesia. As a destination for foreign direct investment, Indonesia struggles against its regional peers. FDI to Indonesia stood at 1.9% of GDP in 2018, well below Vietnam at 6.3% and Thailand at 2.6%, according to the World Bank.

Arwana.Co., an Indonesian company has just signed a contract to ship their industrial products to U.S. The deal is denominated in U.S. dollars. Arwana Co. will receive \$800,000 when the goods arrive in U.S. in 180 days. Assume that Arwana Co. can borrow and lend at 2.5 % p.a. in U.S. dollars and at 6% p.a. in Indonesian Rupiah. Both interest rate quotes are for a 360-day year. The spot exchange rate is BDT13,970/\$, and the 180-day forward exchange rate is BDT13,985/\$.

Adapted from <https://www.bloomberg.com/news/articles/2019-11-05/why-indonesia-failed-to-cash-in-on-the-china-u-s-trade-war>

Continued...

- (a) Indonesia is still a favorite investment destination among the foreign investors. Based on the “market imperfection theory, explain **FIVE (5)** reasons that could attract MNC to invest in Indonesia.
(20 marks)
- (b) Discuss **THREE (3)** potential risks that a foreign investor may face in Indonesia.
(12 marks)
- (c) Given the information in the case study, perform a money market hedge for Arwana Co.
(8 marks)

(Total: 40 marks)

QUESTION 2

- (a) India has adopted a managed float exchange rate system since its independence and is now experiencing twin deficits problem for the past few years. Discuss the potential risks faced by India with regards to twin deficits and float system.
(10 marks)
- (b) “The overwhelming response to government’s Samurai Bond issuance seems to reflect strong confidence among Japanese investors in Malaysia’s economic fundamentals” said the Ministry of Finance (MOF). Discuss the implications of Samurai bond on Malaysia’s Balance of Payment (BOP) with regards to foreign portfolio investments in the short term and long term.

(10 marks)

(Total: 20 marks)

Continued...

QUESTION 3

- (a) Yasahiro, a market trader at Zurich Cantonal Bank, can invest \$5 million, or the foreign currency equivalent of the bank's short term funds, in a covered interest arbitrage with Denmark. Yasahiro is faced with the following market quotes. Will he be able to earn covered interest arbitrage (CIA) profit? Illustrate your answers with computations.

Assumptions	Value
Arbitrage funds available	\$5,000,000
Spot exchange rate (kr/\$)	6.7400
3-month forward rate (kr/\$)	6.7000
US dollar 3-month interest rate	1.80%
Danish Krone 3-month interest rate	0.16%

(12 marks)

- (b) Assuming the following quotes, illustrate how a market trader at HSBC UK with \$1,000,000 can make an intermarket arbitrage profit. Provide your answers with computation.

HSBC UK quotes U.S. dollar per pound:	\$1.2400/£
Deutsche Bank quotes euros per pound:	€1.1300/£
UBS Bank quotes U.S. dollar per euro:	\$0.9000/€

Assumptions	Exchange rate
HSBC UK quote: US\$/pound (\$/£)	1.2400
Deutsche Bank quote: euros/pound (€/£)	1.1300
UBS Bank quote: US\$/euro (\$/€)	0.9000
Initial investment	\$1,000,000.00

(8 marks)

(Total: 20 marks)

Continued...

QUESTION 4

- (a) With a capital structure of 65% debt and 35% equity, Loews Corp. a company headquartered in U.S. is expanding its business in Austria. The United States is Austria's second largest export market after Germany. Recently, Loews Corp. has its business funded in Euro. This includes a total debt of EUR 70 million or 30% of its total capital in Austria. Its effective tax shield is 20%. The risk-free rate in USD is 1.6% while in EUR is 1.3%. Loews's equity portfolio beta is 1.30. The market risk premium is 6.00%. Inflation rate in U.S. is 2.20% while in Austria is 1.40%.

Based the information above, computes the weighted average cost of capital (WACC) for Loews's subsidiary in Austria. (5 marks)

- (b) Discuss **TWO (2)** main implications of a segmented capital market on Multinational Companies (MNCs). (6 marks)
- (c) Bank Negara of Malaysia imposes capital control as part of their monetary policy. Discuss **THREE (3)** reasons a country impose capital control on the transfer of funds out of the host country. (9 marks)

(Total: 20 marks)

End of Paper